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13 August 1951

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**DAILY DIGEST**

Office of Current Intelligence

**CENTRAL INTELLIGENCE AGENCY**

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JCS, DOS and PACOM  
review(s) completed.

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SECTION 1 (SOVIET)

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1. USSR. Soviet economic aid frustrates US embargo on Communist China: Radio Moscow, extolling the benefits of Sino-Soviet economic and cultural cooperation, has asserted that Soviet economic aid frustrates US efforts to starve the Chinese. Pravda's Peiping correspondent also quoted the Chinese Communists to the effect that the Chinese people are aware of their economic dependence on the USSR and realize that they "must express sincere gratitude to the Soviet Union for its great brotherly help."
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Comment: During the past year there has been a noticeable dearth of Moscow comment regarding Soviet economic aid to Communist China. Recent Moscow comments appear designed to counter reported Chinese dissatisfaction with the extent of Soviet deliveries.

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SECTION 2 (EASTERN)

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2. Britain and Iran take first step toward settling oil dispute: The British and Iranian negotiators have appointed a committee to work out a system of receipts to be signed by tanker captains upon loading of oil.

Comment: The refusal of the captains to sign Iranian National Oil Company receipts has prevented Iran from moving her oil and has caused a virtual shut-down in oil production because of lack of storage space. While this is no assurance that the negotiations will be a success, the agreement on a committee to solve this problem is at least one step toward the solution of the oil dispute.

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5. INDIA. Comment on a possible crisis in the Indian Congress Party: Prime Minister Nehru's letter to the President of the Indian Congress Party, requesting his relief from membership in two top policy-making committees of the Congress Party, may reflect Nehru's desire to emphasize formally that he is above party politics. On the other hand, Nehru has been increasingly subjected to dictation from Congress President Tandon and the rightist party majority since September 1950. His position may now have become so intolerable that he has taken the first step toward eventual resignation from the party. In any case, it appears that Nehru is about to lose whatever power he has held in the Congress Party leadership.

Should Nehru resign, he may be expected to assume the leadership of a new "Peasants, Workers, Peoples Party" movement, which has been gaining strength in India since the fall of 1950. Nehru's great popular appeal should give this movement a fighting chance to defeat the Congress Party in the forthcoming national elections.

Faced with such a possibility, the rightist Congress group, which now controls the Government of India, may move to prevent the holding of national elections in January 1952. These elections have already been postponed twice, and further delay would raise an immediate outcry from all non-Congress groups. Nevertheless, the Congress rightists, in cooperation with militantly nationalist organizations such as the Hindu Mahasabha and the Rashtriya Swayamsevak Sangh, probably could assume dictatorial powers and continue to rule with police and military support.

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6. BURMA. Burma transships Japanese tires to Communists: The US Embassy in Rangoon is receiving numerous requests from local tire dealers to clear their applications for tire imports from Japan. This clearance is necessary before SCAP will grant an export license. The Embassy notes that over 20,000 tires were recently ordered from Japan, compared with past imports of only 200 to 300 monthly. The tires, it is reported, are to be smuggled to Communist China. [redacted]

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Comment: The increasing use of the Burma Road to move these tires and other products into China is well documented. The traffic continues on a substantial scale despite the declarations of Burmese officials that customs personnel on the Sino-Burmese border have been increased.

7. INDONESIA. Cabinet discusses security conditions: The Cabinet met in special session on 7 August to discuss security conditions in Indonesia. Following the meeting, Information Minister Mononutu told the press that it was the government's duty to take rigorous action against anti-national movements which might impair the government's authority and tend to disturb society. All government authorities therefore have received orders to take drastic action within the bounds of existing laws and regulations. Mononutu concluded that he believes there is a connection between the irregularities in East and West Java. [redacted]

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Comment: Internal lawlessness remains Indonesia's primary problem. Government concern over security conditions and its suspicion of a coordinated anti-government movement are hopeful signs, particularly since the Cabinet has in the past displayed a reluctance to take drastic action.

There is no evidence that the current wave of insecurity is coordinated. However, the armed gangs throughout Java, some of which are Communist-led and influenced, probably could be induced with little effort to undertake generally simultaneous activity.

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8. Grenade thrown into crowd at Bogor fair: A hand grenade thrown into a crowd at Bogor (in West Java) on the evening of 5 August is estimated to have killed six people and wounded 50 others. The culprit, believed to be a member of a fanatical Moslem gang, escaped in the ensuing panic. [redacted]

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Comment: The incident at Bogor occurred on the same evening as the attack upon Tandjong Priok—about 50 miles to the north—[redacted] a coincidence which has prompted the suspicion that the two outbreaks were connected. During the past two weeks, there has been a general resurgence of lawlessness throughout Java, although the

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western part of the island continues to be the least secure area.



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12. KOREA. ROK cease-fire representative instructed to remain at Kaesong negotiations: Ambassador Muccio reports the contents of a 3 August letter received by General Ridgway from General Paik, ROK cease-fire representative, in which Paik notes his instructions from President Rhee to be present at all meetings. General Paik makes it clear in his letter, however, that attendance is against his personal convictions and that his presence does not signify the ROK Government's approval of any outcome of the negotiations.

Comment: While the adamant stand of the ROK in viewing the cease-fire negotiations as condoning partition of Korea is recognized, the presence at the Kaesong negotiations of General Paik, representing the Korean Army, at least preserves the semblance of UN unanimity of action.

13. Unification sentiment continues in the ROK: Ambassador Muccio, commenting on the demonstrations within the ROK against the cease-fire without unification, notes no basic change in the line of action advocated in speeches delivered at frequent meetings. While the Ambassador observes that meetings are generally small in size and not indicative of a "strong organizational effort," he believes that the celebration of "Liberation Day" (15 August) will be exploited to "produce a high emotional pitch" on the theme of unification.

Comment: While it is believed that President Rhee and his followers will limit their disapproval of the cease-fire negotiations to such meetings and speeches as have been described, the possibility always exists that Rhee will withdraw his military representative from the Kaesong meeting, thus prejudicing the UN position.

14. Communist armored potential discussed: The US Far Eastern Command, in a discussion of the enemy's armored potential in Korea, concludes that while recent tank sightings do not indicate an intention to employ armor extensively, a number of recent reports suggest an increased armored potential (above the 150 tanks currently accepted) for future offensive operations. Reports referred to by FECOM are those concerning the movement of Chinese Communist armored units into Korea from Manchuria. Other reports received

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in July have mentioned movement of armored units into the combat area—  
particularly in the western sector. [REDACTED]

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15. JAPAN. Labor-Farmer Party decides to disapprove San Francisco Conference:  
The Labor-Farmer Party at a 4 to 5 August meeting of its Central Committee  
unanimously voted to continue its policy for an "overall" treaty (including  
the USSR and Communist China). The party resolved to "crush the signing  
of the Japanese peace treaty." [REDACTED]

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4. USSR reportedly offering oil to Anglo-Iranian Oil Company:  
A London broker has offered to sell 100,000 tons of Russian fuel oil to the Anglo-Iranian Oil Company, according to a representative of the UK Ministry of Fuel and Power. The company, though highly skeptical about the availability of this quantity, is nevertheless requesting information on financial terms and the port of loading. The British official informally commented that he perceived no objection to the transaction. [REDACTED] 25X1

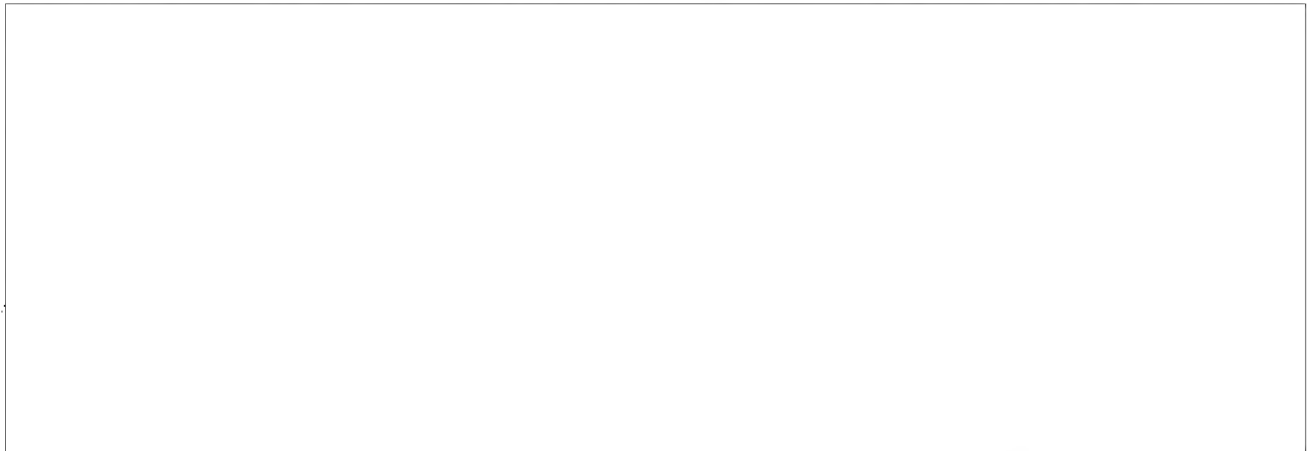
Comment: The petroleum product in question is comparatively low grade but not in surplus supply in the Soviet Union. The USSR, nevertheless, could probably provide the amount specified out of domestic industrial allocations by temporarily substituting coal. The AIOC could readily dispose of the oil to customers ordinarily supplied with Iranian oil. Soviet motives in initiating the alleged offer are, however, not clear. It might be designed to reinforce the several overtures for increased British trade which the Soviets have made during the past two months.

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6. BRITISH HONDURAS. Governor dissolves Belize City Council: Sir Ronald Garvey, Governor of British Honduras, has dissolved the Belize City Council because of its "disloyal attitude" in voting against the display of a portrait of King George VI. This action was taken on the recommendation of the Legislative Council, and in spite of a petition circulated by the People's United Party protesting the proposed action. The Governor stated that the dissolution of the Council (the Colony's only fully elected political body) would not hamper constitutional advance, and that a nominated council would take over the city administration until a new election is held. 25X1

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Comment: Opposition to the British administration has increased in recent years. Native anti-British leaders, representing emergent labor and political organizations, have often sought to defy or annoy the colonial officials in order to publicize their grievances and their political objectives. These leaders ask revaluation of the British Honduran dollar to its old parity with the US dollar and greater popular participation in colonial government than is recommended in the report, now being considered, of the Constitutional Reform Commission. Their major objection to the Commission's report is that it puts elected members in the minority on the Executive Council, which is defined as "the chief instrument of policy". Anti-British sentiment has also been encouraged in propaganda broadcasts from Guatemala which appear to have increased recently, though it is unlikely that such propaganda has contributed substantially to the existing political unrest.

7. ECUADOR-PERU. Border incident: The Ecuadoran Defense Ministry has charged that Peruvian troops stationed in the frontier garrisons of Chimara and La Victoria launched a series of attacks on Ecuadoran troops on August 9 and 10, killing two soldiers and wounding two others. The Peruvian Government, on the other hand, claims that the trouble was started by Ecuadoran border

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troops who, "drunk in celebration of their national holiday", opened fire on Peruvian watchposts in that sector on the above-mentioned days.

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[REDACTED]

Comment: It is possible that there is some foundation for the Peruvian claim. Ecuadoran Independence Day, celebrated on August 10, is usually the occasion for heavy drinking and celebration among the military in frontier posts, and a few inebriated soldiers may well have become "trigger-happy". Border incidents of this type have occurred before and will undoubtedly flare up from time to time in the future, given the ever-present tension which exists between Ecuador and Peru (slightly heightened recently by dissension within the Ecuadoran-Peruvian boundary commission trying to delimit the Santiago-Zamora sector of the frontier) and the monotonous routine life of soldiers stationed in isolated frontier garrisons.

It is unlikely that the incident represents a premeditated action on the part of either government, and although a great storm of protests will undoubtedly be made by both countries, serious deterioration of the situation is not expected.

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SECTION 1 (SOVIET)

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1. USSR. Soviet Embassy in Washington requests lend-lease meetings: The Soviet Embassy in Washington on 10 August requested a lend-lease meeting "early next week" with US officials, according to a State Department cable to Embassy Moscow.

Comment: The State Department has been considering means of bringing additional pressure to bear on Moscow in connection with the USSR's past reluctance to settle its lend-lease accounts with the US. The Soviet request for a lend-lease meeting may only reflect the Soviet Government's feeling that it is at a propaganda disadvantage on this issue. The last round of talks broke down in February 1951 over the monetary settlement and the return of naval and merchant ships. The ships are important to both the civilian and military economy of the USSR, with the lend-lease ships, for example, representing about 1/4 of the gross tonnage of Soviet merchant shipping. However, an ostensibly reasonable proposal for settlement may be planned by the USSR in order to give some substance to the currently intensified "peace" campaign.

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SECTION 2 (EASTERN)

3. CEYLON. Ceylon's Government fears internal repercussions over rubber shipments to China: The Prime Minister of Ceylon has told US Embassy officials that his United National Party, which controls the present government, cannot

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25X1 risk "political suicide" by preventing shipments of rubber from Ceylon to China. He has stated repeatedly that increasingly successful Communist efforts to develop trade in rubber with Ceylon are unfortunate, but that nothing can be done about it. The implication is that Ceylon will not certify under the Kem amendment nor request an exception in its case, despite the foreknowledge that this failure might prejudice the granting of Point IV and other assistance.

Comment: There is a possibility that the United National Party would lose control of the government if it reversed its widely publicized policy of permitting rubber exports to all destinations. There is also a possibility, however, that by conveying the impression that they cannot reverse this stand, the Ceylonese are hoping to speed negotiations for a US contract for a large part of Ceylon's annual rubber output.

- 25X1 4. BURMA. Burma specifies its objections to the Japanese peace treaty: The US Ambassador in Rangoon has received Burma's objections to the Japanese peace treaty. The Burmese recommend that Article 3 (providing for UN trusteeship of the Ryukyus) and Article 6a (providing for the stationing of foreign troops in Japan) be eliminated, because these articles might be construed by the USSR and Communist Chinese as directed against them. Secondly, they refuse to accept the statement in Article 14 that Japan lacks the capacity to pay reparations.

Comment: Burma is not so much concerned with the reparations issue as it is with the prospect of antagonizing Communist China by signing the treaty.

- 25X1 5. PHILIPPINES. Philippines now appear willing to sign Japanese peace treaty: The Philippines will probably accept the most recent draft of the Japanese peace treaty, according to Ambassador Cowen in Manila. The principal modification provides that instead of "recognizing that Japan lacks the capability... to make adequate reparations," the Allied Powers shall recognize that "the resources of Japan are not presently sufficient...to make complete reparations."

Comment: The Filipinos made strong efforts until the last moment to leave the door open for reparations to be paid in money, goods and services, whereas the reparations envisioned above are to be supplied from Japanese services alone.

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SECTION 3 (WESTERN)

7. WESTERN EUROPE. General Eisenhower would serve as European Defense Minister to speed integration: General Eisenhower is prepared to undertake on a temporary basis the functions of European Defense Minister, provided he can get "satisfactory commitments" from the five governments—principally France and Germany—taking part in the European Defense Forces talks in Paris. His motive is "to get the practical business of the recruiting, training, and formation of the force started." He believes that the European army plan presents the only feasible means of bringing the Germans into Western defense, and that the principal reason for delay will be the difficulty of agreeing on the functions of a European Defense Minister [redacted]

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8. FRANCE. French will pose condition to their reluctant acceptance of Greece and Turkey in NATO: France prefers a regional pact associating Greece and Turkey with NATO, and will oppose granting full membership to these two countries unless they are directly subordinated to the tripartite NATO Standing Group. The French reject the idea of a separate command body composed of the present Standing Group members and Turkey. The US NATO Deputy suspects that the French have long wanted to extend the Standing Group's authority beyond the NATO area. In his view, the French fear that a further diminution of France's authority within the Standing Group would relegate France to a minor continental-European role while UK and US interests would be predominant in the Middle Eastern theater as well as in Europe. [redacted]

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Comment: The three-power Standing Group is the executive arm of the NATO military committee, and as such has direct control of all NATO forces.

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France has consistently pushed the alternate idea of a regional Mediterranean pact embracing Greece and Turkey. French reluctance to include Greece and Turkey in NATO has been due partly to fear that growing Western European integration would be hindered and probably also to a firm determination not to open the door for a later admission of Spain.

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